

CIA 7.02 Rockefeller

Commission
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OAGI Research
Institute

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Dear Member:

The economy: The cumulative picture is one of real recovery, hesitant, weak, uneven, slow and bumpy, but finally developing. Here's our assessment of 9 major factors shaping the road back.

...Retail sales: Just-released May estimates show a big jump, after a small April rise. For the two months sales are climbing at an 18% annual rate. But higher volume isn't the whole story, doesn't take sales quality into account, real gains and profits.

Rebates on everything from cars to refrigerators & shavers have helped boost sales, but in the process business is giving up profit margins just to get goods moving, work off inventories. In sum, activity is up, but we won't know its value for months.

...Inventory & industrial output: The work-off is almost done, as we've mentioned, and new orders for most are climbing broadly. Big exceptions are primary metals -- copper, aluminum, steel, etc. They're still working three-quarter capacity, selling inventory.

The Federal Reserve Board's May industrial production index is due this week. Available industry activity figures suggest it'll show the first small upturn since last summer. Important, because this is the broadest monthly measure of total activity.

...Unemployment: The kind is as important as the numbers. The rate for heads of household and white collar is the highest since the depression. True, they'll be the first to be rehired, but they won't return quickly to their old big spending habits. They have to catch up first, will delay buying big-ticket items.

On the plus side, non-farm payrolls rose just a bit in May, after steadying in April, following a slide that lasted for months. Non-farm jobs are considered by many experts as a better guide than the total jobless rate, which is subject to many influences.

...Food prices: It looks as if they'll level off this year, provided the prospects of bumper harvests are indeed fulfilled. But prices won't drop enough to relieve family budget pressures.

...Energy costs: They add to uncertainties, will go up again, even before last year's increases have worked through the economy. This year, consumers & business will still be paying for '74 rises.

Point is costs pile up at each stage of production, etc., take a long time to work their way through to consumer prices. You can expect a 12% boost in energy costs in the next 6 months.

...Personal income: April data show the first strong rise